

## Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 20826 01 OF 02 031840Z

44

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-03 INR-11 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-03 LAB-06 SIL-01 SWF-02

OMB-01 AGR-20 AF-10 SAM-01 DRC-01 /173 W

----- 010661

R 031825Z SEP 74

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 3541

INFO AMEMBASSY LISBON

LIMITED OFFICIAL USE SECTION 01 OF 02 OECD PARIS 20826

E.O.11652: N/A

TAGS:ECON, OECD

SUBJECT: EDRC ANNUAL REVIEW OF PORTUGAL

REF: A. USOECD 16855

B. STATE 150308

C. LISBON 2813

D. LISBON 2825

E. OECD DOC. EDR(74)25

F. OECD DOC. EDR(74)25-CONCLUSIONS

1. SUMMARY: PORTUGUESE DELEGATION TO EDRC JULY 12 MADE CLEAR THAT CONCERN FOR MAINTAINING EMPLOYMENT WAS GREATER THAN CONCERN OVER INFLATION. PORTUGAL INTENDS STIMULATE INVESTMENT WITH TWO-FOLD OBJECTIVE OF IMPROVING EMPLOYMENT OUTLOOK AND REMOVING SUPPLY BOTTLENECKS WHICH HAVE CONTRIBUTED TO HIGH INFLATION RATE. THIS POLICY MAY INCREASE BALANCE-OF-PAYMENTS DEFICIT IN 1974, BUT STRONG RESERVE POSITION AND GOOD INTERNATIONAL CREDIT STANDING MAKE FINANCING PROBLEMS UNLIKELY. END SUMMARY.

2. OUTLOOK FOR EMPLOYMENT: MAIN POLICY PROBLEM FOR  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 20826 01 OF 02 031840Z

PORTUGAL IS TO MAINTAIN EMPLOYMENT DURING CONJUNCTURAL

DOWNTURN, WHEN PROSPECTS FOR EMIGRATION ARE LESS PROMISING AND IMMIGRATION MAY INCREASE WITH RETURN OF AFRICAN TROOPS AND SETTLERS. BROAD OUTLINES OF PORTUGUESE EMPLOYMENT POLICY INCLUDE (A) ASSISTANCE TO SMALL AND MEDIUM FIRMS VIA DIRECT GOVERNMENT LOANS AND REDIRECTION OF COMMERCIAL BANK CREDIT; AND (B) CONCENTRATION OF PUBLIC INVESTMENT ON LABOR INTENSIVE INDUSTRIAL PROJECTS.

3. GROWTH OF OUTPUT AND DEMAND: PORTUGUESE DEL NOTED THAT DEMAND REMAINS STRONG AND IS LIKELY TO INCREASE AS WAGES RISE FOR LOW-INCOME GROUP. HOWEVER, MAIN PROBLEM HAS BEEN SHORTAGE OF SUPPLIES, NOT EXCESS DEMAND, AND POLICIES WILL AIM AT CORRECTION OF SUPPLY SITUATION. GOP PROGRAM WILL INCLUDE STIMULATION OF INVESTMENT, INCREASED IMPORTS, AND EFFORTS TO CHANNEL WORKER REMITTANCES AND WAGE INCREASES INTO SAVINGS. SECRETARIAT SEES WEAK OUTLOOK FOR INVESTMENT AND EMPLOYMENT, AND SEVERAL EDRC REPS EXPRESSED CONCERN REGARDING POSSIBLE DOWNTURN OF ECONOMY. PORTUGUESE DEL (PEREIRA) TOOK OPTIMISTIC VIEW THAT INVESTMENT IS BEGINNING TO RECOVER FROM RECENT PERIOD OF UNCERTAINTY, AND THAT GOP MEASURES WILL BE ADEQUATE TO ARREST DOWNWARD TREND.

4. PORTUGUESE DEL CLAIMED THAT PRODUCTION BOTTLENECKS WERE PARTLY STRUCTURAL AND COULD NOT BE OVERCOME QUICKLY IN AGRICULTURE AND DISTRIBUTION SECTORS. U.S. REP SUGGESTED THAT RELAXATION OF PRICE CONTROLS IN AGRICULTURE MIGHT ENCOURAGE INVESTMENT AS WELL AS IMPROVE EMPLOYMENT PROSPECTS. PORTUGUESE CONCERNED THAT HIGHER FARMGATE PRICES WOULD INCREASE RETAIL PRICE LEVEL UNLESS MIDDLEMEN'S PROFITS CAN BE SQUEEZED AND DISTRIBUTION SYSTEM IMPROVED. IN SHORT RUN, SUPPLY SHORTAGES COULD ONLY BE MET BY INCREASED IMPORTS OF FOOD AND OTHER GOODS WHOSE HIGHER PRICES WOULD ADD TO DOMESTIC INFLATION.

5. PORTUGUESE POLICIES TO OVERCOME SHORTAGES WILL ALSO INVOLVE ENCOURAGEMENT OF SAVINGS AND STIMULATION OF INVESTMENT. INTEREST RATES ON TIME DEPOSITS WILL BE INCREASED IN HOPES OF DIVERTING PART OF WAGE INCREASES AND WORKER REMITTANCES AWAY FROM CURRENT CONSUMPTION.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 20826 01 OF 02 031840Z

AIDS TO INVESTMENT WILL CONCENTRATE ON INCREASING LIQUIDITY, ESPECIALLY FOR SMALL FIRMS WHICH HAVE BEEN SQUEEZED BETWEEN PRICE CONTROLS ON ONE HAND AND INCREASES IN WAGES AND RAW MATERIAL COSTS ON OTHER. GOVERNMENT WILL PROVIDE CREDIT TO HELP SMALL FIRMS MODERNIZE, AND WILL LOWER COMPULSORY RESERVE RATIO FOR COMMERCIAL BANKS ON CONDITION THAT CREDITS ARE CHanneled TO OTHER THAN TRADITIONAL TYPES OF CUSTOMERS.

6. OUTLOOK FOR INFLATION: PORTUGUESE ARE WELL AWARE THAT PRICE-WAGE SPIRAL IS POSSIBLE, ALTHOUGH NOT AGREEING WITH SECRETARIAT THAT THIS, RATHER THAN EMPLOYMENT, IS "PROBABLY THE MAJOR POLICY ISSUE AT PRESENT." PORTUGUESE DEL ATTRIBUTED RECENT INFLATION NOT ONLY TO

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 20826 02 OF 02 031906Z

44

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-03 INR-11 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-03 LAB-06 SIL-01 SWF-02

OMB-01 AGR-20 AF-10 SAM-01 DRC-01 /173 W

----- 010923

R 031825Z SEP 74

FM USMISSION OECD PARIS  
TO SECSTATE WASH DC 3542  
INFO AMEMBASSY LISBON

LIMITED OFFICIAL USE SECTION 02 OF 02 OECD PARIS 20826

EXTENSIVE WAGE INCREASES BUT ALSO TO RISING IMPORT PRICES, SUPPLY BOTTLENECKS, AND EXCESSIVE PROFITS BY MIDDLEMEN IN DISTRIBUTION PROCESS. NEVERTHELESS, HE NOTED THAT PRICES ARE STILL GENERALLY LOWER IN PORTUGAL THAN ELSEWHERE. MAIN EFFORT TO CONTROL INFLATION WILL BE THROUGH DIRECT CONTROLS OVER PRICES AND WAGES. PORTUGUESE AUTHORITIES PLAN TO ESTABLISH THREE DIRECTORATES TO SUPERVISE PRICES. RENTS, PROFIT LEVELS AND SUPPLY AVAILABILITIES. CURRENT WAGE FREEZE WILL NOT BE REMOVED, BUT SIMPLY PEGGED AT HIGHER LEVEL. PORTUGUESE HOPE THESE MEASURES WILL SUCCEED IN REDUCING INFLATION RATE TO UNDER 10 PERCENT ANNUAL RATE BY END

OF 1974. EDRC EXPRESSED STRONG DOUBT THAT SUCH AN OPTIMISTIC OUTCOME COULD BE ACHIEVED, AND SUGGESTED THAT GOP PROGRAM FOR PRICE CONTROLS MIGHT BE TOO AMBITIOUS FOR PRESENT ADMINISTRATIVE CAPABILITIES. PORTUGUESE DEL AGREED THAT THIS MIGHT BE PROBLEM.

7. U.S. DEL EXPRESSED CONCERN THAT EFFORTS TO RELIEVE SUPPLY SIDE OF INFLATIONARY PROBLEM BY STIMULATION OF LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 20826 02 OF 02 031906Z

INVESTMENT, WHILE USING PRICE CONTROLS TO RESTRAIN DEMAND SIDE, MIGHT CAUSE MARKET DISTORTIONS INVOLVING WITHHOLDING OF SUPPLIES AND POSSIBLE BLACK MARKET ACTIVITY. PORTUGUESE INDICATED THAT ANY SUCH DEVELOPMENTS WOULD BE MET BY STRICT COUNTERMEASURES.

8. FOREIGN DIRECT INVESTMENT: U.S. DEL, SUPPORTED BY GERMAN DEL, ASKED REGARDING PLANS TO MAINTAIN FAVORABLE INVESTMENT CLIMATE. PORTUGUESE REPLIED THAT FOREIGN DIRECT INVESTMENT (FDI) WOULD CONTINUE TO BE WELCOME BUT UNDER CAREFULLY PRESCRIBED CONDITIONS. GOP WOULD NO LONGER TAKE LAISSEZ FAIRE ATTITUDE BUT WOULD CAREFULLY SCRUTINIZE CONDITIONS OF INVESTMENT. FOREIGN INVESTORS WOULD NO LONGER BE ABLE TO BENEFIT FROM EASY CREDIT AVAILABILITY AT LOW INTERNAL INTEREST RATES WITHOUT ADEQUATE FOREIGN CAPITAL INFLOW, OR TO TAKE ADVANTAGE OF LOW PORTUGUESE WAGE RATES BY IMPORTING HIGHLY-MECHANIZED MACHINERY. EMPHASIS IN FUTURE WILL BE ON INVESTMENTS WHICH HOLD GREATEST PROMISE FOR EMPLOYMENT CREATION. (NB: HE DID NOT MENTION TECHNOLOGICAL BENEFITS.) IN MEANTIME, NOTHING IN GOP PROGRAM WOULD INDICATE "SOCIALIZATION" OF EXISTING INVESTMENTS. IF GOP WANTS TO BUY BACK FIRMS OR TAKE EQUITY PARTICIPATION IN THEM, THERE ARE ALREADY LAWS SPECIFYING CONDITIONS FOR SUCH PURCHASES AND THESE WILL CONTINUE IN FORCE. NO BASIC CHANGE IN LEGISLATION IS EXPECTED, EXCEPT FOR PROVISIONS TO STREAMLINE PROCESS OF EXAMINING APPLICATIONS.

9. BALANCE OF PAYMENTS: PORTUGUESE EXPECT VERY LARGE BP DEFICIT BY END OF YEAR, BUT BELIEVE THAT LARGE RESERVES, IMF GOLD TRANCHE, AND STRONG CREDIT POSITION WILL PROVIDE ADEQUATE FINANCING IN 1974. PORTUGUESE DEL VOLUNTEERED THAT HIS GOVERNMENT WAS NOT REPEAT NOT CONSIDERING DEVALUATION OF ESCUDO. SPANISH AND JAPANESE DELS NOTED THAT FOREIGN RESERVES OF PORTUGAL WERE LARGER IN RELATION TO IMPORTS THAN FOR ANY OTHER OECD COUNTRY, AND ASKED WHY IN THESE CIRCUMSTANCES IT WAS NECESSARY TO MAINTAIN COMPREHENSIVE IMPORT RESTRICTIONS. PORTUGUESE DEL REPLIED THAT HIS MINISTER HAD RECOMMENDED

THAT RESTRICTIONS BE LIFTED. REGARDING LARGE SIZE OF  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 20826 02 OF 02 031906Z

FOREIGN RESERVES, PORTUGUESE SAID THEY WOULD BE HESITANT  
TO REDUCE THESE SUBSTANTIALLY FOR FEAR OF UNDERMINING  
STRONG CREDIT RATING. ALTHOUGH IT WAS "PERHAPS TOO  
ORTHODOX" TO MAINTAIN FOREIGN RESERVES AT 50 PERCENT OF  
TOTAL CURRENCY ISSUE, ANY DRAMATIC CHANGE IN POLICY  
MIGHT BE INTERPRETED BY POTENTIAL FOREIGN LENDERS AS  
SIGN OF WEAKNESS.  
TURNER

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, POLITICAL STABILITY, TRADE, ECONOMIC REPORTS, ANNUAL REPORTS, POLITICAL SITUATION, FOREIGN INVESTMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 03 SEP 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** shawdg  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974OECDP20826  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740243-0903  
**From:** OECD PARIS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740979/aaaacpae.tel  
**Line Count:** 238  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** A. USOECD 16855  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** shawdg  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 24 APR 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <24 APR 2002 by rowelle0>; APPROVED <27 FEB 2003 by shawdg>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EDRC ANNUAL REVIEW OF PORTUGAL  
**TAGS:** ECON, OECD, EDRC  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005